CONFERENCE OF MINISTERS RESPONSIBLE FOR CO-OPERATIVES

A PROPOSED NATIONAL STRATEGY FOR THE DEVELOPMENT OF WORKERS' CO-OPERATIVES

Report to Ministers

January 3rd 1989

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Ministers responsible for co-operatives

Dear Ministers,

At the June 1988 Conference of Ministers responsible for co-operatives you charged officials and representatives of the co-operative sector with the tasks of;

- examining existing legislation and programs to determine if there are constraints on the incorporation and further development of workers' co-operatives;
- examining existing legislation and incentive programs to determine if they provide equal opportunity for capital formation in all types of co-operatives;
- suggesting strategies for co-operative development, with special emphasis on workers' co-operatives and capital formation.

I have had the honour of chairing the Committee established to undertake these responsibilities. It has consisted of ministerially appointed representatives of every province and the Northwest Territories. This primary committee has been supplemented by a federal interdepartmental committee and sectorial committees from the francophone and anglophone co-op sectors.

These committees and their members have worked well together, and it is with pleasure that I submit to you the attached Report which represents the outcome of their deliberations.

Yours respectfully,

Ken McCready,
Chairman

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EXECUTIVE SUMMARY

Workers' co-operatives, while relatively new to Canada, have existed in many of the industrialized countries of Europe for almost 100 years.

In Canada, there is a slow but steady growth of workers' co-operatives. The largest concentration of workers' co-operatives, over 275, is found in the province of Quebec.

Factors such as a high level of regional unemployment, concentration of economic power in multinational companies, foreign ownership, unstable branch economies, productivity and trade competition, contribute to the growing interest in workers' co-operatives.

An Employment or Workers Co-operative can be defined as a co- operative whose prime objective is to provide employment to its members and operate an enterprise where control rests with the workers.

Workers' co-operatives are only one specific type of worker owned enterprise. Ownership can also be individual (where it is the employees who invest in the company), or collective through unions or worker ownership trusts.

By the end of 1987, there were 393 workers' co-operatives in Canada. With the exception of forestry co-operatives which is the only significant group operating in one sector of activity (mostly within the province of Quebec). Workers' co-operatives are not concentrated in any particular type of activity. Half of the workers' co-operatives are found in services and the other 50% are of the production type including those in forestry activities.

While the number of reporting workers' co-operatives more than doubled between 1984 and 1986, their average membership declined by 33% from 60 members per co-operative to 40 as total membership only increased by 38%. This reflected the smaller average size of the new co-ops.

The total volume of business increased to $119.2 million in 1986 for an average of $731,000 per co-operative; in 1984 the volume of business was $84.4 million and the average size $1.1 million.

15,000 to 20,000 jobs in workers' co-operatives should be seen as a very conservative estimate.

Major Concerns

The following are the major concerns identified during the discussions.

Provincial Legislation

1) **Unequal fiscal treatment:** a strong perception exists that workers' co-operatives are not receiving an equal fiscal treatment which make the concept less appealing.

2) **Little awareness of the co-operative option:** Few professionals are cognizant of the co-operative option in general, and especially workers' co-operatives.

3) **Prohibition of employees on board of directors:** In the past, prior to the proliferation of workers' co-operatives, employees were not authorized to sit on board of directors.

4) **Required number of members too high:** Being in the small business sector it might be difficult for a workers' co-operative project to attract many members during the start-up period.

5) **Recognition of seniority:** Members with more seniority would like to see their past contributions and efforts recognized through surplus distribution and liquidation procedures.

6) **Lack of specific recognition of co-operative option:** Programs generally don't mention the co-operative option and leave the decision to include co-operatives to the officers who deal with an application.

7) **Sector wide agreements** stipulating wages and other aspects of working life that are permitted under labour legislation in some provincial jurisdictions, can create problems for smaller workers' co-operatives.

8) **Treatment of lay-off provision:** Lay-off ruling is very crucial for a workers' co-operative.

Federal Legislation

1) **Minimum membership:** The Canada Co-operative Association Act set the minimum number of members at seven.

2) **Definition of patronage:** Surpluses distributed in workers' co-operatives are considered as an adjustment of wages and taxable accordingly.

3) **Taxation of deferred patronage dividends:** Patronage dividends are taxable in the year that they were allocated but the members will receive devalued dividends in five to ten years.

4) **Taxation compared to Canadian controlled private corporation:** Co-operatives are not receiving the same treatment as Canadian controlled private corporations, mainly because of their different capital structure.

5) **Taxation on unpaid patronage losses at dissolution:** Members are losing money on funds they never received. Patronage dividends lost are not recognized as an investment loss.

6) **Eligibility under the Unemployment Insurance Act:** Eligibility of members of some workers' co-operatives was challenged by Revenue Canada creating a state of uncertainty on the overall eligibility.

Financial Concern

1) **Start-up:** The very necessary investment of money and effort in undertaking pre-registration studies is very difficult to finance from within the membership.

2) **Unemployment Insurance:** This program is not designed to meet the needs of workers setting up co-operatives.

3) **Initial Investment:** Current economic development programs are not designed with the characteristics of workers' co-operatives in mind.

4) **Sources of Funds:** Workers' co-operatives are considered as a novel, high risk form of enterprise by financial institutions.

5) **Long Term Investment:** The role of co-operative legislation in constraining the growth in the equity build-up of workers' co- operatives needs to be examined.

Entrepreneurial Environment

1) **Co-operative Entrepreneurship:** The co-operative form of enterprise calls for a different expression of entrepreneurship which is not well recognized by practitioners or the text books.

2) **Resource Groups:** The international experience with workers' co-operatives development indicates that the functions provided by resource groups are essential.

Operational Environment

1) **Democratic management:** The need to develop management procedures adapted to workers' co-operatives must be recognized.

2) **Seniority:** In a workers' co-operative, senior members are looking for an equitable recognition by future members of their past contribution to the establishment of their enterprise.

Summary Of Recommendations

The following recommendations have been developed in response to the concerns identified. They have been divided into groups and an attempt made to rank them according to both priority and ease of implementation. The three tiers of recommendations are termed:

1) Provide equality of treatment

2) Provide equality of opportunity

3) Provide positive encouragement

It is hoped that the various governments will find it possible to adopt whole tiers rather than just elements within them.

First tier: PROVIDE EQUALITY OF TREATMENT

1.1.0- Legislation and programs

1.1.1- Each government should amend its Acts, regulations and programs in order to eliminate factors, which limit the development of co-operatives especially workers'co-operatives.

1.1.2- Workers' co-operatives and their respective industry-related trade unions should be encouraged to work together to resolve their concerns, to develop joint activities designed to improve working conditions and to help workers retain their jobs during a period of instability in their local economy.

1.1.3- Each government when amending its Co-operative Act should ensure that there is a section dealing with workers' co-operatives.

1.2.0- Administration

1.2.1- Each government should establish a mechanism to identify in the future any other constraints to co-operative development and to assure follow-up by the appropriate department or agency.

1.2.2- Each government should develop a mechanism designed to inform officials involved in policy making and program delivery about co-operatives and participatory organizations.

1.2.3- The implementation process of the strategy should be reviewed by officials during the annual meetings of the National Association of Administrators of Co-operative Legislation. The outcome should then be discussed at interdepartmental meetings (federal, provincial and territorial) to ensure that senior officials responsible for economic development programs are kept informed of the most recent progress made by workers' co-operatives in Canada.

Second tier: PROVIDE EQUALITY OF OPPORTUNITY

2.1.0- Legislation and programs

2.1.1- Discussions should be initiated with senior officials of the Unemployment Insurance Commission (UIC) to review the concerns identified and to evaluate options.

2.1.2- Co-operative and corporate legislation should contain provisions for the transfer of incorporation from a company to a co-operative, when appropriate, without affecting the continuity of operations.

2.1.3- It is recommended that solutions to the problems of workers' co-operatives be found within the six principles established by the International Co-operative Alliance, rather than amending legislation and creating "semi-co-operatives".

2.2.0- Administration

2.2.1- Ensure that a specific reference to co-operatives in general, and to workers' co-operatives in particular, is considered in the drafting of future legislation and programs.

2.2.2- In every jurisdiction, the role of registrar, or equivalent, be specifically defined to include the responsibility for maintaining an up-to-date data bank on co-operatives and their institutions and consequently for advising the government on co-operative development issues.

2.2.3- Include, where appropriate, a section on co-operatives in government economic reports, including analytical and statistical reports, studies, research, etc.

2.2.4- Governments should help ensure that adequate information about the co-operative option is available to professionals who provide business advice to entrepreneurs and enterprises.

2.2.5- In the context of the Task Force recommendations on education, governments should encourage and facilitate the inclusion of the economic, cultural and social roles and contributions of co-operatives in curricula of primary, secondary and post-secondary education.

2.2.6- A federal, provincial and territories committee, appointed by participating governments, should be established to keep track of workers' co-operatives development and to prepare a set of guidelines for registrars outlining points, which should be covered in the Constitutions or By-laws of a new workers' co-operative.

2.2.7- Each government encourage individual departments to involve the group responsible for co-operatives within their government structure in the administration of programs related to co-operatives.

2.3.0- Financing and taxation

2.3.1- Discussion of the role of capital in co-operatives is taking place within the co-operative sector at the present time. The specific concerns of workers' co-operatives should be included in this research process (due June 1989)which should receive adequate assistance and support from governments.

2.3.2- If it proves to be difficult to adjust actual venture capital programs to incorporate workers' co-operatives eligibility, equivalent programs should be developed.

2.3.3- Dependent upon the outcome of the current Touche Ross study on co-operative taxation,(due February 1989) an intergovernmental committee should initiate discussions with the sector and the Department of Finance to review the fiscal treatment of co-operatives and to determine what changes could appropriately be proposed to Cabinet. Actions should also be undertaken to ensure that there is a general understanding of the fiscal policies as they apply to co-operatives.

Third tier: PROVIDE POSITIVE ENCOURAGEMENT

3.1.0- Policy

3.1.1- It is recommended that the federal government establish a Workers' Co-operative Fund, accessible by interested provinces on a cost shared basis, to be used for promotion and development of workers' co-operatives and the establishment of resource groups. Proposals coming from the sector would be directly eligible for consideration under this fund.

3.1.2- Governments should initiate discussions with the co-operative sector on the appropriateness of establishing a National Institute Of Co-operative Entrepreneurship based on existing co-operative oriented university research facilities with the responsibility to conduct research (theoretic or practical) on the concept of co-operation within a market economy and to deliver a national information and promotion program on workers' co-operatives.

3.2.0- Finance and administration

3.2.1- A government/sector committee should explore the development of a capitalization program for workers'co-operatives including:

- a co-operative investment fund with a mandate to identify promoters and projects;
- a registered co-operative capital incentive plan (tax incentive program).

3.2.2- All governments and the co-operative sector should negotiate and sign a Memorandum of Understanding (MOU) on human resource planning for co-operatives, having as its objective the development and implementation of measures required to overcome human resource imbalances being experienced or anticipated by workers' co-operatives.

3.2.3- Approach existing financial institutions such as the Federal Business Development Bank in order to develop specific programs adapted to the needs of workers' co-operatives.

3.2.4- Ensure that assistance to the emerging co-operatives is included in any future Federal/Provincial regional economic development agreements.

INTRODUCTION

INTRODUCTION

Co-operatives in Canada represent a potent economic and social force. At 12 million members nearly 43 per cent of adult Canadians belong to at least one co-operative. More than then 60,000 of them are involved in the direction of a co-operative system through their activities as volunteer board members. Total assets of Canadian co-operatives, including financial co-operatives and their organizations, are $68 billion. Credit unions and caisses populaires annually lend more then $37 billion to their members and the annual revenues of non-financial co-operatives are close to $15 billion. Co-operatives exist in almost every area of the economy including supply, marketing, food, housing, daycare, healthcare, communication, funeral services, manufacturing, and processing.

Workers' co-operatives, while relatively new to Canada, have existed in many of the industrialized countries of Europe for almost 100 years. They cover a broad variety of industrial activity and range in size from very small to some employing thousands of workers. Most notable examples of these may be found in Britain, France, Italy and Spain.

In Canada, while the number is smaller, there is a slow but steady growth of workers' co-operatives, particularly in jurisdictions which, through a variety of programs and support mechanisms, have enhanced their legitimacy and assisted in their development. The largest concentration of workers' co- operatives, over 275, is found in the province of **Quebec**; in the early 1980s, it was the first province to establish programs to help start new workers' co- operatives.

In October 1985, the Government of **Manitoba** announced the Employment Co-operative Program which provides financial and developmental support to workers' co-operatives. As a result, during the first 5 months, 8 new employment co-operatives were incorporated and 12 others were in the development stage. In 1987, 16 employment co-operatives were incorporated in that province.

The growing interest in workers' co-operatives is, in a large part, a response to many factors such as a high level of regional unemployment, concentration of economic power in multinational companies, foreign ownership, unstable branch economies, productivity and trade competition, to name but a few. It is within this turbulent and highly competitive economic climate that workers' co-operatives are being seen as an alternative form of business enterprise that can play a vital role in economic regeneration and recovery. Accordingly, more and more governments in Canada and abroad are beginning to include the co-operative option in the strategy and planning of their economies by providing various supports and incentives to promote their development.

Workers' co-operatives were identified as one of four priority sectors for co-operative development by the National Task Force in its report entitled " Co-operative Development Strategy for Canada ", published in May 1984. Also identified were health services, housing and fisheries. Those sectors were selected because of their undeveloped potential to contribute positively in areas of national concern. The Task Force members, all Canadian co-operative leaders, urged governments to fulfill their role of creating " a climate in which such innovative enterprises can develop and flourish and to ensure that access to development inputs and support is equal to that already available to established economic institutions". They consequently formulated three recommendations *(see annex #3)* in which they called for the creation of a support system, the funding of an Implementation Steering Committee and regional development agencies and the creation of start-up financing mechanism.

Since 1984, workers' co-operatives were raised as discussion items during the two first Federal/Provincial/Territorial Conferences of Ministers responsible for co-operatives held in Saskatoon and Ottawa and, in June 1988, it was the central theme of the third Conference, held in Halifax, which called for a strategy on co-operative development to be drafted focusing on workers' co-operatives.

In 1986, the **Newfoundland** Department of Rural, Agricultural and Northern Development co-sponsored, with the federal Department of Regional Industrial Expansion, a Government Study of Strategies for Co-operative Development in Newfoundland and Labrador which called for structural changes to the provincial Co-op Division in order to play a development role. The report recommended that a development team be set up and that government funds be made available to finance development efforts of the Newfoundland and Labrador Federation of Co-operatives and the Credit Union Central of Newfoundland and to provide financing to co-operative projects. Since the production of that report, the Co-op Division has initiated an expansion in the development sector and discussion to include co-operative programs in the federal/provincial Sub-Agreement III.

Finally, the government of **Prince Edward Island** adopted in early 1988 a Co-operative Development Strategy for Prince Edward Island where priority for immediate action is directed toward encouraging investment in co-operatives and stimulating the creation of workers' co-operatives.

PART I

REVIEW OF CURRENT SITUATION

1) DEFINITION OF A WORKERS' CO-OPERATIVES

While we can come up with a number of definitions of a workers' co-operative, representatives of the federal and provincial governments adopted the following definition:

"An Employment or Workers Co-operative is a co-operative whose prime objective is to provide employment to its members and operate an enterprise where control rests with the workers"(1)

More specifically, a workers' co-operative is an enterprise where the members/owners are the people who work in the organization and those workers collectively hold the co-operative membership rights in accordance with the recognized co-operative principles. Among those rights, the following are the most meaningful:

a) equal voting rights regardless of their capital contribution (one person/one vote to elect the board of directors, which in turn appoints and directs the management)

b) the rights to the profits or net income which is shared among the members, after allowing for adequate general reserves, according to some agreed upon formula based on the member's employment in the co-operatives (e.g. wages earned, hours worked, etc.) and not on capital contributed.

It is a co-operative owned by its employees regardless of their level within the organization; it can theoretically be found in any type of business; and it is one of the purest examples of economic democracy in the work place.

However workers' co-operatives are only one specific type of worker owned enterprise. In this group of enterprises, the ownership rests within the worker force as opposed to with investors. This ownership can be individual (where it is the employees who invest in the company), or collective through unions or worker ownership trusts (the best known being the United States Employee Stock Ownership Plans, with more than 6,000 ESOPs covering over a million workers).

(1) Resolution No. 3 adopted at the 1985 Conference of the National Assoiciation of Administrators of Co-operative Legislation (NAACL)

2) WORKERS' CO-OPERATIVES IN CANADA

Workers' co-operatives, or employment co-operatives, are increasingly being discussed by Canadians as a means of maintaining or creating jobs. While the oldest formal workers' co-operative was established in the Province of **Nova Scotia** some 43 years ago (East Pubnico Co-operative was created in 1935), most of the development is quite recent because the economy wasn't generating the same level of job opportunities as in the 1950s and 1960s.

During the 50s and the 60s, mainly in **Quebec**, a group of workers' co-operatives were started in the forestry sector. After some difficult years, this type of co-operative seemed to become more stable and to enter into a maturation process (diversification, joint venture, etc.). From wood cutting activities, the Quebec forestry co-operatives are moving into greenhouse/nursery, reforestation, forest management and wood processing (sawmill, particle board, etc.). This was accentuated after 1980 when the Quebec government adopted a new program for the management of the forest which allocated to forestry co-operatives 50% of all the forest management contracts on Crown land.

A second period of development can be identified starting at the beginning of the 1970s. At that time workers and community developers started to look more seriously for alternative ways of securing jobs in regions and reacting to job losses as a result of major industry restructuring. During the same time and as a reaction to the grassroot interest, more studies and research were carried out by academics who highlighted the potential of this form of enterprise under certain circumstances. A study on the Quebec situation revealed that all workers' co-operatives were created after 1940 (Harpell Press Co-operative, founded in 1945, being one of the first and most successful with almost 200 members in 1984); and that 80.5% of those in existence in 1984 had been started after 1970, including 52.2% in 1983-84 alone.

Today more and more people in Canada are looking at workers' co-operatives as a viable economic option when their employment is being threatened. Labour unions in Quebec have started looking at workers' co- operatives as a serious option. An example of that is the establishment, with the support of the Canada Employment and Immigration Commission, of an intersectoral resource group by the 'Confédération des syndicats nationaux (CSN)'; the objective of the group is to provide any member union facing plant closure with advice on options, including the creation of a workers' co-operative, to take over the operation. On the national scene, the Educational Services of the Canadian Labour Congress (C.L.C.) produced in 1986 a leaflet in which they stated in their conclusion:

"Some time ago, important reflections began within labour organizations with regard to their involvement in the development of production co-operatives. Similar reflection led to the intervention by the Canadian Labour Congress to encourage the creation of housing co-operatives, and more recently, the decision of the Quebec Federation of Labour to establish the Solidarity Fund."...

"During periods of high unemployment, can we not assist workers in their task by showing them that there is an alternative suited to this situation, that of production co-operatives." (1)

Around 400 worker co-operatives are registered under Co-operative Acts in Canada with more than 70% under the Quebec Co-operative Act. Since February 1983, the Quebec government has been promoting this type of enterprise as a means of creating jobs for the young. Since that time the number of workers' co-operatives registered grew from 115 to a maximum of 426 subsequently declining to 275 at the end of 1987.

Workers' co-operatives are involved in many different types of activities such as:

-diesel and heavy equipment repairs;
-courier services;
-textiles
-forestry, wood cutting;
-hot house market gardening;
-building maintenance;
-actors, musicians;
-consulting;
-manufacturing of ventilation systems;
-communications;
-etc.
- school bus contracting;
- towing;
-printing;
- blueberry picking;
- agro-forestry development;
- production of cedar shingles;
- construction & renovations;
- software application;
-restaurant;
- graphic art;

(1) The Labour Movement and the Co-operatives Movement: Parallel Paths?, Canadian Labour Congress, Educational Services, Ottawa, 1986.

Status of Workers' Co-operatives -Most Recent Figures

By the end of 1987, there were 393 workers' co-operatives in Canada. With the exception of forestry co-operatives which is the only significant group operating in one sector of activity (mostly within the province of Quebec). Workers' co-operatives are not concentrated in any particular type of activity. Half of the workers' co-operatives are found in services and the other 50% are of the production type including those in forestry activities.

TABLE 1: Number of Workers' Co-operatives in Canada - 1987

PROVINCE	TYPE OF CO-OPERATIVE FORESTRY	PRODUCTION	SERVICES	TOTAL	% OF THE TOTAL
British Columbia	12	6	11	29	7.4%
Alberta			2	2	0.5%
Saskatchewan	2	3	5	10	2.5%
Manitoba	2	14	16	32	8.2%
Ontario		1	3	4	1.0%
Quebec	53	87	135	275	70.0%
New Brunswick			4	4	1.0%
Nova Scotia	1	13	16	30	7.6%
Prince Edward Island	1	1	3	5	1.3%
Newfoundland			2	2	0.5%
CANADA	71	125	197	393	100.0%

Source: Co-operatives Secretariat, Government of Canada and all provincial governments.

In the Maritime fishery sector, mixed co-operatives also exist but they are not included in this survey. However, this is another way used by the co-operative sector to include worker ownership; in this case both fishermen and workers in the factory are eligible for membership, with limited access to the board being the main constraint faced by employees.

Of the 393 workers' co-operatives registered in Canada, 163 co-operatives provided their annual report for 1986 or twice the number for 1984.

While the number of reporting workers' co-operatives more than doubled between 1984 and 1986, their average membership declined by 33% from 60 members per co-operative to 40 as total membership only increased by 38%. This reflected the smaller average size of the new co-operatives. In parallel, the total volume of business increased to $119.2 million in 1986 for an average of $731,000 per co-operative; in 1984 the volume of business was $84.4 million and the average size $1.1 million.

Table 2 : Workers' Co-operatives Reporting in Canada for 1984 and 1986- Profile

	1984	1986	Variation %
Number of co-operatives	80	163	+104%
Membership	4,857	6,682	+38%
Sales:($thousand)			
Forest products:	$ 52,825	$ 63,330	+20%
Other product sales:	$ 11,981	$ 14,274	+20%
Sub-total	$ 64,806	$ 77,604	+20%
Other Revenue: ($thousand)			
Service revenue:	$ 15,259	$ 38,518	+152%
Other income:	$ 4,326	$ 3,030	-41%
Sub-total	$ 19,585	$ 41,548	+112%
Volume of Business:($thousand)	$ 84,391	$ 119,152	+41%
Average size: "	$ 1,054	$ 731	-31%
Salaries: "	N/A	$ 39,732	
Net Savings: "	$ 2,120	$ 4,129	+94%
Net savings as a percentage of the volume of business:	2.5%	3.5%	
Assets: ($thousand)	$ 31,108	$ 62,390	+100%
Members equity -thousand dollars	$ 15,020	$ 29,585	+96%
-percentage of the assets	48%	47%	
Government subsidies -thousand dollars	$ 1,587	$ 1,016	-36%
-percentage of the volume of business	1.9%	0.8%	

Source: Co-operatives Secretariat, Government of Canada.

Most of the new activity was in the service sector as shown by the progression of the service revenue, from $15.3 million in 1984, to $38.5 million in 1986 an increase of 152%. During the same period the sales of products manufactured or marketed by workers' co-operatives only increased by 20% to $ 77.6 million.

The volume of business was made up of $63.3 million of forest product sales (53%), followed by the service revenues of $38.5 million (32%), food sales $4.9 million (4.1%), other goods $4 million (3.3%), machinery sales $2.6 million (2.2%). While the membership was 6,682 in 1986, it is difficult to interpret these figures in terms of jobs because, while there generally a direct relationship between membership and employees, the numbers do not always match; the employment being dependent on the level of activities. The salaries paid were close to $40 million according to their annual reports, but it became evident that many organizations included wages and salaries under the administrative costs. Most of the reports did not provide information on the number of employees.

A very extensive study of the Quebec forestry co-operatives published in January 1988 by the government of Quebec give an idea of the employment situation in that sector.

Table 3 : Membership and employment in Quebec forestry co-operatives 1984-1986 (a)

Year	Membership	Employees	Direct jobs created	Percentage growth	Salaries (thousand$)
1984	3,331	3,950			$ 46,683
1985	3,733	4.664	714	18,1%	$ 55,405
1986	3,968	5,491	827	17,7%	$ 69,053

(a) The employment figures include all employees of the co-operatives' subsidiaries

Source: Michel Clément, Portrait des coopératives forestières au Québec 1984-86, Ministère de l'Energie et des ressources, Québec, 1988, pp. 53-56.

In 1986 forestry co-operatives paid directly $69.5 million in salaries to 5,491 employees who worked an average of 5 to 6 months. This figure includes employees of subsidiaries owned mostly by the co-operatives. In addition, the study estimated that at least 300 jobs were provided during 1986 as a result of the $27.6 millions of sub-contracts the co-operatives allocated mainly for transportation, road building and maintenance and highly mechanized wood cutting jobs.

Outside similar specific studies, data normally collected on the employment situation in co-operatives are very limited. However an estimation of between 15,000 to 20,000 jobs in workers' co-operatives should be seen as very conservative.

In terms of success rate , the following table indicates that after 8 years, 32% of the co-operatives formed in 1979 are still active.

The major reduction seemed to occur during the very first year and after the fourth year the percentage of active co-operatives stabilized at around 50%. These results can be advantageously compared to what happened in the private sector where it is generally recognized that, after three years, half of such initiatives have ceased activities. After the fifth year, the percentage of active co-operatives per year of incorporation declined slowly with about one third of a group achieving long term stability.

Table 4 : Quebec workers' co-operatives active in 1988 by year of incorporation 1978-1987

Year	Number incorporated	Number still active in 1988	Percentage
1979	19	6	32%
1980	20	7	35%
1981	19	8	42%
1982	27	11	40%
1983	34	18	52%
1984	38	20	53%
1985	77	42	55%
1986	87	39	45%
1987	42	34	81%

Source: Direction des coopératives, Gouvernement du Québec

3) PROVINCIAL LEGISLATION

This section covers the provincial legislative framework under which a workers' co-operative has to operate and evolve . Outside the Co-operative Act it discusses also how other legislative documents take into account the co-operative factor and how they are interpreted by public administrators.

Co-operative Acts

Almost all co-operatives in Canada are registered under a provincial act and workers' co-operatives are not an exception. The impact of the actual provincial co-operatives acts on the number of incorporations is difficult to assess but when a group of workers develop a business project they have a choice between the co-operative act and the corporation act. It is also difficult to compare between provinces. The level of membership varies from 75% employee members to 100% depending on how registrars consider the relationship between the management and the co-operative; for some provinces employees should keep the right to maintain an employer/employee relation with management while in others the manager is just another type of worker and it will be against the concept to exclude them from the membership. More crucial in provinces where all workers must be members, the concept of probationary period was introduced to allow some flexibility in member recruitment.

The decision on the type of incorporation that best suits a group of workers who want to start their own business is not an easy one because it is far from being a black and white type of issue. This can be illustrated by the Big Carrot case which is often referred to as one of the most successful workers' co-operatives in Canada; they, as well as probably other worker owned enterprises, are not registered under the Co-operative Act for various reasons.

One of the most important reasons used to justify registration under the corporation act is the inadequate fiscal treatment faced by the members and their co-operative. A comparative table done for the province of Quebec shows that, after the first phase of the revision of the federal income tax, the fiscal treatment applied to workers' co-operatives indicates a slight disadvantage compared to a corporation when the net revenue is under $200,000. This situation is also recognized by legal advisors who, despite an extensive knowledge of the co-operative act, helped groups of workers to incorporate under the corporation act.

Another explanation is that in many regions the professionals available to advise potential entrepreneurs have very little awareness of the co-operative option outside of agricultural marketing, consumption or saving and loans activities. Many lawyers therefore encourage private incorporation and have on file incorporations that can be made available for any business project. Any entrepreneur can leave their offices with a legal status in hand. Because co-operatives are people oriented , they need time to develop beforehand what the group wants, so it is just impossible to walk out from a lawyer office with an incorporation in hand.

Very few M.B.A.s, accountants, financial specialists, etc. have been exposed to co-operatives during their studies or their work. Therefore it is difficult for potential co-operatives members to get professional advice on this option that is appropriate and useful. This is true not only within private consultant firms but also for government staff responsible for the delivery of economic development programs in the regions .

There is no universal model of co-operative act and each provincial administration has developed its own vision of their role in this respect. Two different approaches have been utilized. Some provincial administrations see in the act simply a tool to regulate a particular type of enterprise while others confer on the act a development function. Even within those two approaches, every province follows a different pattern.

Among other limitations to workers' co-operatives incorporation that were identified in some provinces, it was mentioned that employee participation on the board of directors is not always clearly expressed in the Act. Therefore, some provinces clarify this element in the regulations. Government representatives confirmed that employees are definitely eligible to be on the board.

Another limitation that was identified is the number of members needed to form a workers' co-operative. For a long time co-operatives were developing in sectors with a large membership potential. In workers' co-operatives, most of the development that occurred consisted of very small to small businesses with a short term potential membership of less than 10 members.

The distribution of surpluses is also seen as a limitation because the actual interpretation of the equity factor does not allow the recognition of seniority. It was, however, agreed that the impact of this rule can be greatly reduced through an annual distribution of surplus on a salary structure based on seniority, recognizing that it is an indication of the relative contribution of each member to the operation of the co-operative, or perhaps through an annual increment system. Liquidation procedures in some provinces have also to be clearly understood by potential members.

On another side, some concerns were expressed to the effect that some people may be attracted to the workers' co-operative model by factors like low registration fees or special aid programs. They are not really committed to the co-operative culture and they want to get out of the legal format when they realize that they cannot maximize all individual benefits. Problems are also experienced with respect to management by members especially when they have to do some lay-offs; the notion of ownership is interpreted as a right to a job which is not necessarily reconcilable with the needs of the co-operative enterprise. For example the tendency will be to use seniority as a lay-off criteria but a newer member may hold the type of expertise that is crucial to the survival of the business.

It was agreed that a Canadian model of by-laws should be developed and used for distribution to potential co-operative entrepreneurs. Also some provinces were of the opinion that the co-operative act or regulation should stipulate that by-laws must contain a specific section on lay-offs.

Other Legislation

The main concern which applies to most pieces of legislation or programs is the general lack of specific recognition of the co-operative option. In the actual context, where the reference is the private business model, the applicability of legislation or the eligibility under government programs of co-operatives is mainly a matter of interpretation by the officer on the front line. For the reasons mentioned earlier with respect to registration, it is doubtful that local administrators will spontaneously specify to potential applicants the co-operative eligibility. It was consequently, agreed that any effort to sustain workers' co-operative development will not be fully rewarded unless all government programs and legislations comment specifically on eligibility of co-operatives.

In some provincial jurisdictions, labour legislation may permit the imposition of sector wide agreements related to wages and other aspects of working life. While in the vast majority of cases, labour, management and the sector as a whole may benefit from such agreements, the inflexibility inherent in such a process may result in problems for some smaller workers' co-operatives.

Some element of flexibility in this very sensitive question will be well received by worker-owned co-operatives. In order to develop the most appropriate approach, the workers' co-operative sector should initiate discussions with the relevant labour bodies in those jurisdictions where such difficulties exist.

Current Situation

Since the late 1970s, co-operative acts in most provinces have been revised in order to take into account the specific need of workers' co-operatives. The provinces of Quebec and Saskatchewan introduced a specific section on Workers' Co-operatives. The government of Newfoundland is in the process of revising their Credit Union and Co-operative Acts and by 1989, they plan to have two separate acts; the Co-operatives Act will then include a definition of workers' co-operatives and model by-laws.

In almost all provinces, the legislation permits the formation of a co-operative with a minimum of three members. Those which are not permitting it at the present time are considering revisions to reduce their minimum number to three.

Nova Scotia plans to strengthen the section on liquidation procedures and to include the concept of preferred shares.

Prince Edward Island and **Nova Scotia** have dealt with the exclusion of employees from serving on the board through amendments to the regulations.

The **Prince Edward Island** provides for co-operative preferred shares.

The **Quebec** government plans to investigate the question of surplus distribution in their upcoming revision of the Act. The question of recognizing the contribution of senior members will be considered. They also plan to modify the obligation to retain a portion of the surplus in the reserve by taking into account the amount of preferred shares already included in equity.

In **Ontario**, the Act is presently under revision and the administration is considering the need for specific references to workers' co-operatives. A White Paper is likely to be prepared to elicit reaction.

The **Saskatchewan** administrator of the Co-operative Act is recommending amendments to replace the words "employment co-operatives" with "workers' co-operatives" and to remove restrictions on the role of workers' co-operatives in retail operations.

Alberta is considering new co-operative legislation which will include positive steps for workers' co-operatives in areas like the minimum number of members, distribution of surpluses, and by-laws provisions.

Summary

1) **Unequal fiscal treatment:** a strong perception exists that workers'co-operatives are not receiving an equal fiscal treatment which make the concept less appealing. The concept should be recognized in the Income Tax Act in order to equalize the fiscal treatment and action should be initiated to overcome this perception.

2) **Little awareness of the co-operative option:** Few professionals are cognizant of the co-operative option in general, and especially workers' co-operatives. Special attempts should be made to inform them through their professional associations.

3) **Prohibition of employees on board of directors:** In the past, prior to the proliferation of workers' co-operatives, employees were not authorized to sit on board of directors. Any confusion should be clarified by the registrars.

4) **Required number of members too high:** Being in the small business sector it might be difficult for a workers' co-operative project to attract many members during the start-up period. Minimum numbers should be reduced to the level that does not restrict the development of projects.

5) **Recognition of seniority:** Members with more seniority would like to see their past contribution and effort recognized through surplus distribution and liquidation procedures. The appropriateness of changing the rules should be studied.

6) **Lack of specific recognition of co-operative option:** Programs generally don't mention the co-operative option and leave the decision to include co-operatives to the officers who deal with an application. Specific reference to co-operatives in government programs should bring more uniformity in the treatment of co-operatives across Canada.

7) **Sector wide agreements** stipulating wages and other aspects of working life that are permitted under labour legislation in some provincial jurisdictions, can create problems for smaller workers' co-operatives. Within a framework consistent with the objectives of such legislation, ways of resolving this situation should be explored and discussions with unions should be undertaken by the co-operative sector in order to resolve difficulties.

8) **Treatment of lay-off provision:** Lay-off ruling is very crucial for a workers' co-operative. By-laws should always contain a section on lay-off.

4) FEDERAL LEGISLATION

This topic covers the main federal Acts that are identified as having the potential to contribute positively to workers' co-operatives by way of amendments, clarification statements, or changes in regulations.

Federal Co-operatives Act:

The Canada Co-operative Associations Act, proclaimed in 1970, does not specifically refer to workers' co-operatives but no serious impediment can be identified outside of the minimum number of persons needed to form a federally registered co-operative; 7 persons or more, with legal power to contract, can form a co-operative.

With respect to workers' co-operatives registration, the federal Act is not expected to play a major role. Technically, a proposed co-operative has to meet two conditions prior to being incorporated. First, it has to carry on its activities in two or more provinces; and, secondly, it will have a fixed place of business in more than one province.

However, for some years now, the co-operative sector has been considering the need for asking a major revision of the Act and workers' co-operatives' legal requirements will be addressed at the time. The Canadian Co-operative Association has made this revision a priority but any formal discussions with Corporate and Consumer Affairs are conditional upon the definition, within their membership, of a clear common position on the capital structure question.

Federal tax legislation:

Both the co-operative sector and governments of some provinces are pointing at the federal tax legislation as being inequitable to co-operatives in general and workers' co-operatives in particular.

In 1985, a study by Touche Ross & Partners for Manitoba Co-operative Development, investigated "Income taxation mechanisms for Manitoba employment co-operatives". The study identified structural irritants and incentive needs to be addressed in order to remove inequities for workers' co-operatives.

An update of the Touche Ross paper on federal tax legislation and its impact on workers' co-operative is being undertaken with the financial support of most of the governments involved in the development of this strategy.

As an example, the study called for a broader definition of patronage to include an allocation of surplus on the basis of gross pay or hours worked, but considering the impact this will have on the employee's own tax situation it will be imperative to address the question of deferred patronage dividends. This is very crucial during the start-up as a lot of members will be part of the low income group which cannot afford to pay tax on money they haven't received.

The question of equitable treatment was also raised. The tax provisions for a "Canadian controlled private corporation", for example do not take into account co-operative's characteristics.

Most of the incentives for these companies are based on tax incentives related to capital appreciation which co-operatives are unable to benefit from.

In addition, losses on unpaid patronage after dissolution are not recognized as an investment loss despite the fact that patronage dividends were fully taxable in the hands of members in the year they were allocated.

Unemployment Insurance Act:

Revenue Canada, as the federal department responsible for the administration of the Unemployment Insurance Act, have issued, over the past years, rulings on the insurability of members of workers' co-operatives. In all reported cases when negative rulings were appealed, the final decisions confirmed the eligibility for unemployment insurance.

It was agreed that most of the rulings were the result of a general misunderstanding of workers' co-operatives and that it will help the situation if a directive can be issued by Revenue Canada to describe the workers' co-operative model with respect to the existence of an employer/employee relationship. Specific reference should also be made to the ruling concerning couples when together they hold 40% or more of the control of an enterprise; this means that, in every case where the membership is 5 members or less, couples will not be eligible for Unemployment Insurance benefits.

Other legislation:

In general, other then the generic constraints that were identified by the representatives of the provincial and territorial governments and the co-operative sector, it is difficult for federal officials to review the numerous Acts, regulations and programs that can affect workers' co-operatives.

The members of the federal sub-committee on workers' co-operatives are of the opinion that the great majority of programs are accessible to co-operatives and that there is nothing in the legislation that would specifically constrain, prevent or hinder the growth of workers' co-operatives. It was recognized that in most cases it is a question of interpretation within a context where very few federal departments have a good knowledge and awareness of the existence and needs of co-operatives, and even less of workers' co-operatives.

The two major questions that need clarification are:

- to what extent co-operatives are recognized as having commercial objectives without being profit oriented businesses? and
- to what extent is it recognized that an employer/employee elationship exists within the workers' co-operatives.

Summary

1) **Minimum membership:** The Canada Co-operative Association Act set the minimum number of members at seven. Under the next revision, amendment should be considered in the context of a federal incorporation.

2) **Definition of patronage:** Surpluses distributed in workers' co-operatives are considered as an adjustment of wages and taxable accordingly. A broader and more flexible definition of patronage is needed to take into account the specificity of workers' co-operatives.

3) **Taxation of deferred patronage dividends:** Patronage dividends are taxable in the year that they were allocated but the members will receive devalued dividends in five to ten years.

4) **Taxation compared to Canadian controlled private corporation:** Co-operatives are not receiving the same treatment as Canadian controlled private corporations, mainly because of their different capital structure. The legislation must fully recognize co-operative specificity in the definitions of terms used, on the basis that it is up to the Act to respond to the co-operative identity by appropriate treatment (not to the co-operative to transform itself in some sort of predetermined structure).

5) **Taxation on unpaid patronage losses at dissolution:** Members are losing money on funds they never received. Patronage dividends lost are not recognized as an investment loss.

6) **Eligibility under the Unemployment Insurance Act:** Eligibility of members of some workers' co-operatives was challenged by Revenue Canada creating a state of uncertainty on the overall eligibility. The situation will benefit from the diffusion among officers responsible for the administration of the Unemployment Insurance Act of an assessment of the workers' co-operative model and the relation that exist between the workers and the co-operative. The legal treatment of couples and its impact on workers' co-operatives should also be reviewed.

5) FINANCIAL CONCERNS

This topic covers all aspects of raising the funds necessary to establish and operate a new workers' co-operative. It therefore extends from the funding of feasibility studies through to the maintenance of long term equity within the co-operative.

Start-up Costs

It was agreed that it is essential for the long term success of both individual workers' co-operatives and the workers' co-operative concept as a whole, that every effort be made to identify and resolve problems before the co-operative is registered. This involves such concepts as feasibility studies, market studies, director training, by-law development, etc.

These types of studies generally require the assistance of professionals not only because they have the necessary skills and experience, but also to provide an independent assessment of the viability of the concept when outside sources of finance are being approached. The costs, particularly when calculated on a daily fee basis, are perceived as being high, especially from the viewpoint of unemployed workers. There is a strong temptation to avoid the cost in favor of using the money available for start-up costs, or to reduce it by undertaking the work themselves. Early indications from people experienced in establishing workers' co-operatives show that almost two-thirds of the proposals are not viable. Good pre-registration studies can identify the non- viable proposals. The costs saved by avoiding the start-up, regulation and early liquidation of this number of small businesses are substantial.

Current situation

Resources (personnel or financing), in Newfoundland, Quebec and Manitoba, are available for feasibility studies outside of the traditional sources. In **Newfoundland**, start-up grants are available under the federal/provincial Economic Regional Development Sub-Agreement III. In **Quebec**, resources are available through the Resource Groups system which can help the promoters to develop a good feasibility study, or through the Société de développement des coopératives which can use its resources to assist in the preparation of such studies. In **Manitoba**, it takes the form of a loan which can be written off if the project is not implemented. In **Saskatchewan**, Co-operative field staff provide developmental assistance, training, programs, managerial, legislative, financial, technical an other support services to co-operatives.

There are no government programs in the other provinces that are available specifically to co-operatives; promoters have to seek such funding through general small business development programs.

It was, however, agreed that feasibility studies should not generally be undertaken by government officials in order to protect the integrity of the government when it is asked to assess a workers' co-operatives project under a financial program.

The Extension Department of St. Francis Xavier University, in **Nova Scotia**, through an Innovations Project of Employment and Immigration Canada, is providing some assistance in this respect.

In some other provinces, assistance can also be found through co-operative development groups that are locally funded by governments, religious groups or established co-operatives.

Unemployment Insurance

This is only a concern where the potential members of a co-operative are currently earning unemployment insurance. There are two aspects of it that are causing concerns.

The first is that workers who are currently receiving U.I.C. payments become ineligible for such assistance when they become involved in setting-up a new co-operative, because it is alleged that they cease to be available for work opportunities. This has the double impact of cutting off what little income there is and thereby reducing the existing savings available for investment in the new enterprise.

The second is that by starting up a workers' co-operative the unemployed workers are assuming the cost of their own maintenance, thereby relieving the state of the obligation under U.I.C. of providing support.

Initial Investment

The level of funding required to start-up a new workers' co-operative depends not only on the type of activity of the co-operative, (i.e. service versus manufacturing, capital versus labour intensive), but also on whether it is a 'green-field' or a 'buy-out' situation.

It was agreed that a significant level of member investment in a workers' co-operative is essential to the success of the enterprise. It equates to commitment, both for the workers whose funds are at risk, and for outside lenders who would not be prepared to shoulder the entire risk.

The problem comes with defining 'significant'. For a small labour intensive service co-operative it may be 100% of the cost of the fixed assets. For a more capital intensive manufacturing plant in an area of high unemployment, raising 15% of the equity would clearly be 'significant'. There is also a problem in evaluating the "sweat equity" contributed to start-up a new organization.

Programs which lay down minimum levels of owner equity as a pre-requisite for further assistance can therefore cause problems by restricting the eligibility of workers' co-operatives that have achieved a 'locally significant' degree of member commitment.

Conditions attached to the initial investment

Registration as a co-operative under many provincial acts brings with it constraints on the distribution of accumulated capital. Whilst in most cases these constraints are avoidable, solutions to concerns about them are much easier to implement in the start-up by-laws than by having to seek subsequent consensus on changes. It was therefore agreed that it was essential for the full character of co-operative capital to be explained to the potential members.

Current Situation

Each province has a set of programs available for supporting initial investment but only Newfoundland, Prince Edward Island, Nova Scotia, Quebec and Manitoba have established co-operative development funds.

There is a $500,000 fund for co-operative development in **Newfoundland**, which was used to start a small household workers' co-operative. Workers' co-operative projects are also eligible for a loan up to a maximum of $60,000 at a rate of 7% for business development component.

In **Nova Scotia**, a Summer Student Co-op program was established to provide loans to a maximum of $2,000 per student.

A loan fund of $2 million has been established in **Prince Edward Island** to support community and co-operative projects. Among the other programs that workers' co-operative can access the following have been identified:

- the Community Economic Development Program providing 80% loan guarantee;
- the Equity Investment Incentive Program which can provide an incentive to purchase of up to 30% of co-operative preferred shares in manufacturing or processing activities; and
- the Prince Edward Island Development Agency providing guarantee for line of credit.

In **Quebec**, the Société de développement des coopératives is a crown corporation set up to financially assist co-operative development projects; assistance is mainly taking the form of acquisition of privileged shares, loan guarantees and interest subsidies. Some Fédérations des caisses populaires Desjardins established Development Funds to support small businesses including co-operative projects.

A revolving fund of $1 million permits the **Manitoba** government to participate in co-operative ventures up to 100% of the cost.

In all provinces, co-operatives are generally eligible under government funding programs designed for small business.

Sources of funds

This deals with sources of capital and operating loans for workers' co-operatives in addition to that which is provided by the members themselves.

It is when seeking external funding of this nature that the full value of adequate pre-registration studies becomes apparent. Financial institutions and government economic development programs, the primary sources for these funds, are not philosophically committed to the concept of workers' co-operatives. They will be trying, whenever they can get beyond an initial aversion to being involved at all, to make their decisions using criteria geared to 'normal' small businesses. Good feasibility studies and market analyses will reassure them that, even if the restraints on capital appreciation and the distribution of surpluses are beyond their experience, the basic requirements of a commercially oriented business are being met. The better prepared a workers' co-operative is, the better are its chances of raising outside financing at reasonable rates.

Some participants expressed the opinion that workers' co-operatives have not received the support from traditional financial co-operative system that outside observers might have expected. The main reasons appear to be that:

- commercial lending is still, in many regions, a relatively new and undeveloped role for credit unions;
- the co-operatives are considered to involve a greater degree of risk than is appropriate for investing credit union members' savings; and
- these workers' co-operatives have not yet been accepted as an integrated part of the mainstream co-operative sector for which co-operators, in general, feel a measure of mutual responsibility.

However, while this perception exists, more and more activities are being developed between workers' co-operatives and credit unions/caisses populaires. In **Prince Edward Island**, credit unions are major partners in community development and are contributing to the promotion of such initiatives. In **British Columbia**, a financial co-operative has been established to make available loans to community type of enterprises including workers' co- operatives. In **Saskatchewan**, the credit unions movement is establishing a distinct fund to become more able to support that type of project. In the province of **Quebec** a survey conducted in 1984 indicated a greater support from the caisses populaires system which provided 43% of the loans, followed by the Société de développement des coopératives with 30%. The banks were involved in only 19% of the projects.(1)

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(1) Lévesque, B., A. Ct et J.L. Russell, Profil socio-économique des coopératives de travail du Québec, Université du Québec à Montréal, Montréal, 1985. 180 pages, page 121,123.

Current Situation

The main sources of external financing available to co-operatives are the normal ones like banks, credit unions and caisses populaires, and venture capital funds.

In addition, governments are managing a large spectrum of development programs geared to business development; the various Assistance to Business in Canada publications produced by the Federal Business Development Bank are providing a good list of the majority of programs that are available at the federal and provincial levels.

Long term investment

Any business that intends to develop must establish a method for increasing its permanent capital, which for workers' co-operatives is their members equity. This means that there must be ways to generate additional investment in the co-operative. The least painful method is through the retention of a portion of the surplus. If this is done by the co-operative itself, which is in a position to utilize tax incentives such as depreciation allowances, then no tax liability is generated.

If, however, no such allowances are possible, the retention would be taxed at the co-ops' corporate tax rate. If the surplus is first allocated to members and retained in their name as shares or loans, then a tax liability is created at the member level, even though no cash has been received.

The capital structure of a co-operative has always been seen as an integral part of the definition of a co-operative in which the ownership is linked to usage rather capital. In a workers' co-operative, the usage which establishes the ownership is the employment within the enterprise; capital, like a raw material, being only one input among others.

The main consequence of this situation is related to the fact that workers' co-operatives members are primarily all workers and not investors. In general, they have limited savings to reinvest after having covered their pension plan needs, and they are therefore forced to look cautiously at placing their "pension" in the co-operative. The concept of investing in their job carries a different type of risk. Whilst this does not alter the concept on which the return on capital is based it does increase the risk/benefit factors which the employee/member must take into account in determining where to place his savings. If he chooses his workers' co-operative, success brings double benefits: secure job and financial returns; but failure doubles the disadvantages: loss of both job and savings.

Summary

1) **Start-up:** The very necessary investment of money and effort in undertaking pre-registration studies is very difficult to finance from within the membership. Alternative sources of financing need to be identified.

2) **Unemployment Insurance:** This program is not designed to meet the needs of workers setting up co-operatives. The appropriateness of making amendments to the program to meet these needs should be studied.

3) **Initial Investment:** Current economic development programs are not designed with the characteristics of workers' co-operatives in mind. Investment by members is crucial, but a measure of flexibility is required to meet the needs of the sector.

4) **Sources of Funds:** Workers' co-operatives are considered as a novel, high risk form of enterprise by financial institutions. Methods of resolving the resulting concerns to facilitate affordable financing need to be developed.

5) **Long Term Investment:** The role of co-operative legislation in constraining the growth in the equity build-up of workers' co-operatives needs to be examined. The specific characteristics of this form of co-operative may require legislative changes not required by more traditional forms of co-operative.

6) THE ENTREPRENEURIAL ENVIRONMENT

This section will attempt to identify the specific characteristics of entrepreneurship when applied to the co-operative enterprise and the best ways to encourage that particular form of collective entrepreneurship. This reflection seems to be most appropriate in the context of the recent announcement by the Minister of State (Small Business and Tourism) of a National Policy on Entrepreneurship.

Collective Entrepreneurship:

A simple economic definition of an entrepreneur is a person who operates an enterprise for his own benefit and who combines various factors of production (capital, natural resources and labour) in order to sell on the market products or services. In the general understanding, this concept refers to a single individual making all pertinent decisions and taking all the inherent risks. This vision does not leave any room for a co-operative which results from the action of a group of people who as individuals cannot be identified as entrepreneur but collectively create a production unit. This particular enterprise results from a very specific dynamic which can be defined as co-operative entrepreneurship.

Resources Groups:

The Co-operative Sector is not likely to be able to undertake on its own the promotion of co-operative entrepreneurship in new fields and to support those who will respond to the challenge of controlling their own working environment through an enterprise which they own. The emerging workers' co-operatives are not likely to join in a federation or a central organization where the only common bond will be the marketing of labour.

The assessment of past experience of co-operative development shows tht government support was always a key element of their recognition as a legitimate enterprise. As a result, we are seeing that more provincial governments are including a development function in the mandate of the departmental division responsible for co-operatives; **Newfoundland**, **Prince Edward Island** and **Nova Scotia** being the most recent examples.

Recognizing that the development function is not a natural one for governments, the Resource Groups structure has been identified as an effective delivery mechanism for developing the workers' co-operatives and is receiving support from most provincial representatives on the Joint Committee. Resource Groups, similar to those established in the housing sector, are considered essential to any real development of workers' co-operatives. In the province of **Quebec**, the government is financially supporting four of these groups which promote the concept; help in the drafting of project; conduct feasibility studies; develop business plans; help with the incorporation and the drafting of by-laws; train people in the field of collective decision making and democratic management, etc.

The possibility of joint funding should be explored recognizing that if anything is to be done the initiative and most of the funding will have to come from governments.

Summary

1) **Co-operative Entrepreneurship:** The co-operative form of enterprise calls for a different expression of entrepreneurship which is not well recognized by practitioners or the text books.

2) **Resource Groups:** The international experience with workers' co-operatives development indicates that the functions provided by resource groups (feasibility and viability studies, training, business and financial advices, etc.) are essential. Effort should be made to ensure the establishment and the proper funding of resource groups.

7) THE OPERATIONAL ENVIRONMENT

Very few Canadians were exposed to the workers' co-operative model during their studies or their work experience and, consequently, are unprepared to perform effectively as a worker/owner. It was agreed that there is a need for developing a model for democratic management in workers' co-operatives and to train potential members. All the productivity gains in a workers' co-operative is the result of a strong commitment from workers at all levels in the organization. In order to maintain that advantage, on the long term, the co-operative should have a management style adapted to the ownership structure and a good mechanism for conflict resolution should also be in place. If resource groups can have sufficient financial resources to provide follow-up services, it will make sense to rely on them to offer training and advice in that managerial area.

In terms of management, this form of enterprise has the potential to raise expectation by the members/employees over the extent of their control of their activities. The need for the division of work and managerial capacities still exists but its expression has to differ from the more traditional business. Managers are eligible for membership like any other employee but their vote carries more influence than others. Specific managerial skills need to be developed within the organization in order to cope with the permanent interrelation of the general assembly, the board of directors, the management and the employees. The distinction between the owner's hat and the employee's hat is not an easy one.

After the very first years, the seniority question becomes more an issue within successful enterprises. Individual members want to see a form of return on the past effort they put into the building of the co-operative. The notion of time is at the center of the question. While the member horizon is the short term, the reality of a business is located in the long term. The permanent pressure of technological changes, and the level of investment they require, mean that current contributions will benefit mainly the future generation of members in terms of an enterprise adapted to the evolving market condition. The impact of this situation is major for the co-operatives and their members when they have to decide on the distribution of surplus and the form it should take.

Summary

1) Democratic management: The need to develop management procedures adapted to workers' co-operatives must be recognized. Effort should be made to help in the development of such procedures and to make training programs available in all provinces.

2) Seniority: In a workers' co-operative, senior members are looking for an equitable recognition by future members of their past contribution to the establishment of their enterprise. Government assistance should be made available to this young movement in order to find an appropriate response to their legitimate expectation without jeopardizing the future of the organization.

PART II

ELEMENTS OF A STRATEGY FOR THE DEVELOPMENT OF WORKERS' CO-OPERATIVES IN CANADA

PROPOSED STRATEGY FOR THE DEVELOPMENT OF WORKERS' CO-OPERATIVES IN CANADA

The following recommendations have been developed in response to the concerns identified in Part I. It is recognized that both the concept of a workers' co-operative and the range of forms they adopt are complex. The identification and resolution of their problems will not be solved overnight. The recommendations have therefore been divided into groups and an attempt made to rank them according to both priority and ease of implementation. Furthermore many of the recommendations are directed at establishing procedures to try and ensure that the fundamental problems of ignorance and a lack of visibility are overcome over the medium and the long term.

The three tiers of recommendations are termed:

1) Provide equality of treatment

- 1.1 Legislation and programs
- 1.2 Administration

2) Provide equality of opportunity

- 2.1 Legislation and programs
- 2.2 Administration
- 2.3 Financing
- 2.4 Taxation

3)Provide positive encouragement

- 3.1 Policy
- 3.2 Finance

It is hoped that the various governments will find it possible to adopt whole tiers rather than just elements within them.

The approaches developed in this paper represent the combined efforts of federal, provincial, territorial and co-operative sector representatives. After being circulated to various players, this strategy will form the basis for a national policy on workers' co-operatives development to be discussed by Ministers at their national conference. The policy will provide the context within which the individual initiatives should take place.

First tier: PROVIDE EQUALITY OF TREATMENT

SUGGESTED CHANGES WHICH REMOVE THE MOST OBVIOUS INEQUITIES IN THE LEGISLATIVE AND ADMINISTRATIVE POLICIES AFFECTING WORKERS'CO-OPERATIVES.

1.1.0- Legislation and programs

The analysis of the problems confronting the development of workers' co-operatives identified that in many cases legislation had been drafted without any concept of such organization in mind. This has resulted in many situations where either through omission of any specific reference or through inappropriate requirements, workers' co-operatives are rendered ineligible for certain government support programs.

The objective of the following recommendations is to identify and amend acts and regulations which unintentionally exclude workers' co-operatives for eligibility or limit their growth.

1.1.1- Each government should amend its Acts, regulations and programs in order to eliminate factors, already identified within their administration, which limit the development of co-operatives with an emphasis on workers' co-operatives (e.g. inequities, restrictive definition of a co-operative, eligibility criteria too vague, venture capital programs restricted to voting by shares and/or linked to non-par value shares, exclusion of workers' co-operatives from employee share ownership programs). In addition it is recommended that:

- the cost of registering a workers' co-operative be on a par with the cost of registering any other company;
- the offering statement requirement be no more onerous than of other co-operative businesses corporations.
- the auditing requirements be comparable to those of conventional business corporations
- specific mention be made of workers' co-operatives in the guidelines of existing assistance programs; for example: employee share ownership programs, grants for business development, business loan guarantees, etc.

1.1.2- Workers' co-operatives and their respective industry-related trade unions should be encouraged to work together to resolve their concerns. They should also be encouraged to develop joint activities designed to improve working conditions and to help workers retain their jobs during a period of instability in their local economy.

1.1.3- Each governmetn when amending its Co-operative Act should ensure that there is a section dealing with workers' co-operatives which, as a minimum, includes a definition of the concept, and the inclusion of employees on the board of directors of this type of co-operative.

1.2.0- Administration

Discussions indicated that most of these problems with legislation were known to small groups who had directly experienced them. Without any responsibility for change nor any coordinating group, the problems remained unresolved and unnecessary sources of irritation. The following recommendations are designed to establish mechanisms for resolving these problems on an on-going basis, in general using existing structures, before they become major concerns.

1.2.1- Each government should establish a mechanism to identify in the future any other constraints to co-operative development and to assure follow-up by the appropriate department or agency.

1.2.2- Each government should develop a mechanism designed to inform officials involved in policy making and program delivery about co-operatives and articipatory organizations.

1.2.3- The implementation process of the strategy should be reviewed by officials during the annual meetings of the National Association of Administrators of Co-operative Legislation. The outcome should then be discussed at interdepartmental meetings (federal, provincial and territorial) to ensure that senior officials responsible for economic development programs are kept informed of the most recent progress made by workers' co-operatives in Canada.

Second tier: PROVIDE EQUALITY OF OPPORTUNITY

SUGGESTED CHANGES WHICH ENSURE THAT WORKERS' CO-OPERATIVES RECEIVE GENUINE EQUALITY IN THEIR TREATMENT FROM GOVERNMENTS AND THEIR AGENCIES.

2.1.0- Legislation and programs

This section is basically an extension of the section 1.1.0 but includes recommendations which go somewhat further to ensure that workers receive treatment on par with other entrepreneurs when setting up new businesses or taking over control of existing ones.

The first initiates discussions with the Unemployment Insurance Commission to attempt to negotiate a standard set of benefits using experiences of similar organizations abroad. The second facilitates the takeover by a workers' co-operative of an established business, a concept encouraged by the current CEIC Innovation grant to the Canadian Co-operative Association. The third defines the limits within which solutions to the concerns of workers' co-operatives should be found.

2.1.1- Discussions should be initiated with senior officials of the Unemployment Insurance Commission (UIC) to review the concerns identified and to evaluate options such as:

- the extension to all regions in Canada of the Self-Employment Incentive option (SEI) included in the Canadian Jobs Strategy under Community Futures programs. SEI provides, in lieu of social assistance or unemployment insurance, grants for income support ($180 per week for a maximum of 52 weeks) to individuals during a period in which they are in the process of developing long-term employment through a worker owned enterprise.
- provision of start-up funds for a worker owned enterprise through capitalization of the residual benefits in their UI account;
- the advance payment of up to six months of UI benefits in the form of loans that are repayable over 3 years, interest free, if the enterprise succeeds;

2.1.2- Co-operative and corporate legislation should contain provisions for the transfer of incorporation from a company to a co-operative, when appropriate, without affecting the continuity of operations.

2.1.3- The characteristics of a co-operative are basically defined within the six principles established by the International Co-operative Alliance. It is recommended that solutions to the problems of workers' co-operatives be found within these principles rather than amending legislation and creating "semi-co-operatives".

2.2.0- Administration

This is also an extension of section 1.2.0 and recommends actions to try and ensure that workers' co-operatives receive equality of opportunity in the drafting of legislation and the implementation of programs on an on-going basis. Thereby creating a situation where the concerns in the section 1.2.0 are avoided before they are created. These recommendations go a little further by suggesting developments in education at all levels to improve the general level of knowledge and understanding of the concept of workers' co-operatives.

2.2.1- Ensure that a specific reference to co-operatives in general, and to workers' co-operatives in particular, is considered in the drafting of future legislation and programs.

2.2.2- In every jurisdiction, the role of registrar, or equivalent, be specifically defined to include the responsibility for maintaining an up-to-date data bank on co-operatives and their institutions and consequently for advising the government on co-operative development issues.

2.2.3- Include, where appropriate, a section on co-operatives in government economic reports, including analytical and statistical reports, studies, research, etc.

2.2.4- Governments should help ensure that adequate information about the co-operative option is available to professionals that provide business advice to entrepreneurs and enterprises (lawyers, accountants, professional administrators, FBDB staff, etc.)

2.2.5- In the context of the Task Force recommendations on education, governments should encourage and facilitate the inclusion of the economic, cultural and social roles and contributions of co-operatives in curricula of primary, secondary and post-secondary education.

2.2.6- A federal, provincial and territories committee, appointed by participating governments, should be established to keep track of workers' co-operatives development and to prepare a set of guidelines for registrars outlining points, such as those identified in this document, which should be covered in the Constitutions or By-laws of a new workers' co-operative. (e.g. lay-off provision, seniority, surplus distribution, liquidation, etc.)

2.2.7- It is suggested that each government encourage individual departments to involve the group responsible for co-operatives within their government structure in the administration of programs related to co-operatives.

2.3.0- Financing and taxation

Whilst the Committee recognized the vital importance of financing and taxation to the development of workers' co-operatives it recommends that specific proposals for change await the outcome of the current research on this topics being undertaken by the sector (due June 1989) and Touche Ross and Partners in Winnipeg (due February 1989).

2.3.1- Discussion of the role of capital in co-operatives is taking place within the co-operative sector at the present time. It is suggested that they be encouraged to study the specific concerns of workers' co-operatives and that, on the basis of the outcome of these studies, further discussions take place with federal and provincial governments. The research process initiated by the co-operative sector should receive adequate assistance and support from governments.

2.3.2- If it proves to be difficult to adjust actual venture capital programs to incorporate workers' co-operatives eligibility, equivalent programs should be developed.

2.3.3- Dependent upon the outcome of the current Touche Ross study on co-operative taxation, an intergovernmental committee should initiate discussions with the sector and the Department of Finance to review the fiscal treatment of co-operatives and to determine what changes could appropriately be proposed to Cabinet. Actions should also be undertaken to ensure that there is a general understanding of the fiscal policies as they apply to co-operatives.

Third tier: PROVIDE POSITIVE ENCOURAGEMENT

SUGGESTED CHANGES WHICH PROVIDE POSITIVE ENCOURAGEMENT TO THE DEVELOPMENT OF WORKERS' CO-OPERATIVES AS ONE METHOD OF CREATING JOBS AND AT THE SAME TIME ENCOURAGING POSITIVE WORKER COMMITMENT.

3.1.0- Policy

The Committee felt that in certain economic situations governments would want to actively assist workers to set up their own business's on the basis of co-operative entrepreneurship. The Committee agrees that the development of resource centres is urgently needed in order to insure real growth of this new form of entrepreneurship; the specific proposal for the creation of Workers' Co-operative Enterprise Centres submitted by the anglophone sector being one approach.

The first recommendation suggests the establishment of a federal fund which would provide the core funding for workers' co-operative oriented programs. It is considered highly desirable that the implementation of such programs would be on a federal/provincial or territories cost sharing basis. However, it is recognized that this may not always be possible and that in those circumstances the Co-operative Sector should be able to directly access the fund with the approval of the federal Cabinet.

The second recommendation recognizes the need for further study of the utilization of the workers' co-operative concept within the Canadian economy and suggests the joint funding of a research capability based on existing university co-operative research centres.

3.1.1- It is recommended that the federal government establish a separate Workers' Co-operative Fund, accessible by interested provinces on a cost shared basis, such fund to be used for promotion and development of workers' co-operatives and the establishment of resource groups. Proposals coming from the sector would be directly eligible for consideration under this fund.*(See Appendix A)*

3.1.2- Governments should initiate discussions with the co-operative sector on the appropriateness of establishing a National Institute Of Co-operative Entrepreneurship based on existing co-operative oriented university research facilities with the responsibility of doing the appropriate research (theoretical or practical) on the concept of co-operation within a market economy and to deliver a national information and promotion program on workers' co-operatives.

3.2.0- Finance and administration

This final section suggests the initiation of certain specific activities directed at resolving some of the financial constraints facing workers' co-operatives, and bearing in mind the constraints suggested in 2.4. They all involve the Co-operative sector's representatives and assist in insuring the inclusion of workers' co-operatives in their wider deliberations. The suggested Memorandum of Understanding will help facilitate the implementation of training programs designed to assist workers to take on their new roles as co-operative entrepreneurs.

3.2.1- Explore the development of a capitalization program for workers' co-operatives including:

- a co-operative investment fund with a mandate to identify promoters and projects;
- a registered co-operative capital incentive plan (tax incentive program).

3.2.2- Negotiate and sign a Memorandum of Understanding (MOU) on human resource planning for co-operatives, having as its objective the development and implementation of measures required to overcome human resource imbalances being experienced or anticipated by workers' co-operatives, in order to ensure that this new form of enterprise can develop and retain the specific expertise it needs to prosper; potential signatories would be the federal government (CEIC), the provincial governments, the territories and the co-operative sector.

3.2.3- Approach existing financial institutions such as the Federal Business Development Bank in order to develop specific programs adapted to the total needs of workers' co-operatives.

3.2.4- Ensure that assistance to the emerging co-operatives is included in any future Federal/Provincial regional economic development agreements.

ANNEXES

Annex 1

FEDERAL/PROVINCIAL/TERRITORIES JOINT COMMITTEE ON WORKERS CO-OPERATIVES:

Members

Chairman: Ken McCready, Director, Co-operatives Secretariat Government of Canada

Brian Walsh
Co-operatives Analyst
Dept. of Rural, Agricultural
& Northern Development
Government of Newfoundland
and Labrador

Fred Pierce
Inspector of Co-operatives
Dept. of Industry, Trad
& Technology
Government of Nova Scotia

Frank Driscoll
Manager Co-operative
Development
Dept. of Industry
Government of Prince
Edward Island

Bill Church
Director of Credit Unions
& Co-operatives
Dept. of Justice
Government of New Brunswick

Jacques Carrier
Senior Advisor
Co-operatives Sector
Dept. of Industry and Trade
Government of Quebec

Norm Wilson
Acting/Director of
Credit Unions & Co-operatives
Ministry of Financial
Institutions
Government of Ontario

Vic Hryshko
Registrar & Director of
Co-operative Development
Co-operative, Consumer &
Corporate Affairs
Government of Manitoba

Vern Kaisler
Acting/Director
Co-operative Branch
Dept. of Economic Development
and Tourism
Government of Saskatchewan

Bert Elridge (1)
Director of Co-operatives
Ministry of Consumer and
Corporate Affairs
Government of Alberta

Ross Gentleman
Manager of Co-operative
Government Relations
Government of British Columbia

Larry Adamson
Director Industrial Development
Dept. of Economic Development & Tourism
Government of Northwest Territories

1) Bert Elridge took over from Ron Kaiser who retired shortly after the establishment of the Comittee

Annex 2

TERMS OF REFERENCE

At the third Conference of Ministers Responsible for Co-operatives held in Halifax on June 13/14, 1988, the Ministers agreed that a Committee be appointed to follow-up on problems and issues identified at the Conference in the areas of workers' co-operatives and capital formation. Immediately following the conference (June 14) provincial officials and personnel from the Co-operatives Secretariat met to draft "Terms of Reference" for the Committee.

1.1 The members of the Committee are to be appointed by the provincial ministers.

1.2 The Central or APEX Co-operative organizations - CCA and CCC -will not have members on the Committee, but they may participate thereon by invitation, and close liaison will be maintained with them through the Co-operatives Secretariat. They will have ample opportunity to:

1.2.1 - make known views on legislation and programs relating to workers' co-operatives and capital formation, and

1.2.2 - make suggestions as to the opportunities that they can identify and initiatives which they themselves may be prepared to undertake.

2. Its Mandate

The Ministers further agreed that the said Committee should:

2.1 - examine existing legislation and programs to determine if there are constraints to the incorporation and further development of workers' co-operatives;

2.2 - examine existing legislation and incentive programs to determine if they provide equal opportunity for capital formation in all types of co-operatives;

2.3 - suggest strategies for co-operative development, with special emphasis on workers' co-operatives and capital formation.

3. Its Task

Given the above mandate, the Committee members shall:

3.1 - examine and identify specific impediments in their respective jurisdictions that may be constraining the process of workers' co-operative development, and they shall submit their concerns to the Committee which, after due consideration and consultation, shall:

3.1.1 - suggest specific changes in legislation and/or regulations to remove such impediments, and;

3.1.2 - suggest specific programs and/or policy options that can be considered to overcome the impediments that cannot be removed entirely in the short term;

3.2 - identify the opportunities for improving programs (federal and provincial) that are intended to encourage new capital formation as well as new programs to encourage new capital formation in all types of co-operatives, but more particularly in workers' co-operatives, and it shall:

3.2.1 - suggest specific changes to existing incentive programs so that co-operatives will not be at a disadvantage in accessing capital, and;

3.2.2 - suggest new program options that could be incorporated in the legislation to provide a specific incentive for capital formation in co-operatives.

3.3 - Examine the results of existing workers' co-operatives development programs in Quebec and Manitoba and evaluate their results. On the basis of the analysis, prepare concepts for government programs to utilize the successful elements of these programs.

4. Procedures

Subject to changes to accommodate the members of the Committee and to permit the Committee to fulfill its mandate effectively and expeditiously,

4.1 - the Committee shall be chaired by the Director of the Co-operatives Secretariat;

4.2 - the Committee shall meet as often as it is deemed necessary, the date and location for the subsequent meeting being determined at each meeting thereof;

4.3 - the first meeting shall be held in conjunction with the meeting of the National Association of Administrators of Co-operative Legislation (NAACL) in Quebec City which is scheduled for June 26 to 29, 1988, at which these "Terms of Reference" and Work Plan" to be evolved shall be reviewed, revised as deemed necessary, and approved;

4.4 - the interim report of the Committee is to be submitted to the Ministers not later that October 31, 1988, with the final report targeted for December 31, 1988.

Addendum:

We concluded from the discussions at the initial session to structure the Follow-up Committee that it would be made up primarily of provincial representatives, with a representation from the Secretariat. to assure a concerted effort that will be well coordinated, we are suggesting the following:

(1) A sub-committee of the Interdepartmental Committee to look at federal legislation and programs as they relate to co-operatives, and to suggest strategies to facilitate co-operative development.

(2) A committee or committees from the co-operative sector to provide an input to legislation and programs, and to evolve their own strategies relative to co-operative development, especially in the areas of workers' co-operatives and capital formation. CCA already has a workers' co-operative committee and has given top priority to capital formation. CCC is addressing these issues and, hopefully, will structure its own committee or join forces with CCA.

(3) A joint committee to coordinate the effort at the provincial, federal and sectorial levels which would consist of two representatives from the provincial governments, one from the federal government, one from the Secretariat, one from CCA and one from CCC. The involvement of the APEX co-operative organizations through their own committee(s) and the joint committee should not preclude their participation by invitation on the Follow-up Committee as was suggested. They could, as outlined in Section 1 of the above "Terms of Reference", make known views and suggestions which could contribute substantially to its work and the results to be achieved.

Annex 3

Extract from A CO-OPERATIVE DEVELOPMENT STRATEGY FOR CANADA, Report from the National Task Force on Co-operative Development; May 1984

Recommendation # 11

A support system to assist workers' co-operatives should be created under the direction of the co-operative system, but in partnership with the federal government and interested provincial governments.

Recommendation # 12

An implementation Steering Committee should be created with representatives from the established co-operative movement and emerging workers' co-operatives with a mandate to develop models and guidelines for worker co-operative development, examine the legislative environment; and formulate a plan for the creation of regionally based worker co-operative development assistance agencies that will specify the respective roles of the co-operative system, federal and provincial governments, and local worker co-op organizing groups.

Recommendation # 13

The Government of Canada should endorse workers' co-operatives as a priority vehicle for employment generation and make joint funding assistance available to the co-op movement for the staff work of the Worker Co-op Steering Committee; for regional development assistance agencies; and for the creation of a pool of start-up funds or start-up guarantees for the individual employee-owned co-operatives.

Annex 4

THE CO-OPERATIVE NATURE

A co-operative is a form of business, incorporated for service rather than profit to meet economic, social or cultural needs, owned by member/users and controlled by them on the basis of one member - one vote through an elected board of directors charged with responsibility for management carried out by a hired staff. Members all share charges and risks. Savings, after allowance for general reserve, are generally distributed on the basis of use of services by members irrespective of the level of individual investment. Some consumer co-operatives, called direct-charge, are operated as non- profit organizations with sales mark-up at zero or a very low level and operating expenses generally being met through a weekly user fee.

Most Canadian co-operatives generally subscribe to the six basic principles of co-operation as adopted, in 1966, by the International Co-operative Alliance. These principles are:

1. Open and Voluntary Membership

Membership in a co-operative should be voluntary and available without artificial restriction or any social, political or religious discrimination to all persons who can make use of its services and who are willing to accept the responsibilities of membership.

2. Democratic Control

Co-operatives are democratic organizations. Their affairs should be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Members of primary co-operatives should enjoy equal rights of voting (one member - one vote) and participation in decisions affecting their organizations. In other than primary co-operatives, the administration should be conducted on a democratic basis in a suitable form.

3. Limited Interest on Shares

Share capital should receive only a strictly limited rate of interest, if any.

4. Return of Surplus to Members

Surplus or savings, if any, arising out of the operations of a co-operative belong to members and should be distributed in such a manner as would avoid one member gaining at the expense of others. This may be done by decision of the members as follows:

a) by provision for development of the business of the co-operative;

b) by provision of common services; or

c) by distribution among the members in proportion to their transactions with the co-operative.

5. Co-operative Education

All co-operatives should make provision for education of their members, officers and employees, and of the general public in the principles and techniques of co-operatives, both economic and democratic.

6. Co-operation Among Co-operatives

All co-operatives, in order best to serve the interests of their members and their communities, should actively collaborate in every practical way with other co-operatives at local, national and international levels.

It is important to note that not every co-operative subscribes to all six principles. For example, some co-operatives are designed specifically by religious or ethnic groups for their exclusive use.

CO-OPERATIVES ACT AND ADMINISTRATION MATRIX

	BRITISH COLUMBIA	ALBERTA	SASKATCHEWAN	MANITOBA	ONTARIO	QUEBEC	NEW BRUNSWICK	NOVA SCOTIA	PRINCE EDWARD ISLAND	NEWFOUNDLAND	NORTH WEST TERRITORIES
MINIMUM NUMBER OF MEMBERS TO FORM A CO-OP: (1)	5	6	DISCRETIONARY	3	5	WORKER: 3 OTHER: 5	3	3	3	5	5
MINIMUM PERCENT OF WORKERS WHO MUST ALSO BE MEMBERS:	N/A	-	75	75	N/A	100	N/A	NO LIMIT	-	100	N/A
SEPARATE DEFINITION OF WORKER CO-OP IN THE ACT: (Y/N)	N	N	Y	N	N	Y	N	N	N	N	N
REGISTRATION FEE: -FOR CO-OP	$150.00	$250.00	$250.00	$140.00	$500.00	$50.00	$35.00	$25.00	$10.00	$100.00	$100.00
-FOR CO-OP (NON-PROFIT)	$175.00	$250.00	$250.00	$220.00	$100.00 $250.00	$210.00 *		$150.00	$150.00	$230.00	$200.00
-CORPORATION	N	N	N	N	Y	N	Y	N	Y	N	N
LIMITATIONS ON EMPLOYEES AS BOARD MEMBERS?: (Y/N)							(4)		(5)		
-IF YES, WHAT ARE THEY?										Y	Y
ALLOWED TO HAVE OUT-OF-PROVINCE/TERRITORIES MEMBERS?: (Y/N)	Y	Y	Y	Y	N	N	Y	Y	N	Y	Y
ALLOWED TO HAVE OUT-OF-PROVINCE/TERRITORIES OPERATIONS?: (Y/N)	Y	Y	Y	Y	Y	Y	N	Y	N	N	Y
PROVISIONS UNDER CO-OP LEGISLATION TO REGISTER OUT-OF-PROVINCE/ TERRITORIES CO-OPS?: (Y/N)	Y	Y	Y	Y	N	N	N	N	N	Y	Y
ARE AUDITED FINANCIAL STATEMENTS REQUIRED?: (Y/N)	N	Y	Y	Y	Y	Y	Y	NOT ALWAYS	Y	Y	Y
-REQUIRED AT SOME MIN. NO. OF MEMBERS/TURNOVER?: (Y/N)		Y	(2)	N/A		(3)	N	Y	N		
ARE OFFERING STATEMENTS OR PROSPECTUS REQUIRED?: (Y/N)	N	N	N	Y	Y	N	N	N	N	N	N
-REQUIRED AT SOME MIN. NO. OF MEMBERS/TURNOVER?: (Y/N)		N		N/A	Y		N	N			N/A
ARE THERE CONVERSION PROVISIONS TO CHANGE FROM CO-OP TO CORP?: (Y/N)	N	N	N	N	Y	Y	N	N	N	N	N
-FROM CORP TO CO-OP?: (Y/N)	N	N		N	Y	Y	N	N	N	Y	N
WHO INITIATES CONVERSION?: REGISTRAR OR MEMBERS	N	N/A	MEMBERS	N/A	MEMBERS		N/A	N	N/A	MEMBERS	N/A
-FROM CORP. TO CO-OP..						SHAREHOLDERS		N			
-FROM CO-OP. TO CORP.:						MINISTER					
CURRENT NUMBER OF REGISTERED WORKER CO-OPS?:	26	2	9	40	7	225	5	40	4	2	0

(1) THE SMALLEST NUMBER THE REGISTRAR CAN AUTHORIZE IF JUSTIFIED
(2) CO-OPS UNDER 20 MEMBERS NEED UNANIMITY
(3) NOT REQUIRED IF ALL MEMBERS AGREE
(4) MANAGER CANNOT VOTE AT BOARD MEETING
(5) NO LIMITATIONS FOR WORKER CO-OPS

* : $60.00 TO REGISTER A CORPORATE NAME

N/A: NOT AVAILABLE

APPENDIX

Proposal

for

WORKER CO-OPERATIVE ENTERPRISE CENTRES

Submitted by:

Canadian Co-operative Association
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December, 1988.

Canadian Co-operative Association

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A Proposal For

WORKER CO-OPERATIVE ENTERPRISE CENTRES

I. INTRODUCTION

If Canada is to develop a vibrant worker co-operative sector that can usefully contribute to our economy and our society, we must put a number of essential building blocks in place. Therefore, we must ensure that:

1.all impediments to establishing and operating worker co-operatives are removed from statutes, regulations and especially taxation legislation,

2.an adequate financing system for individual worker co-operatives is established, combining commercial sources with government incentives,

3.a network of worker co-operative enterprise centres are developed to forward the worker co-operative concept.

This paper makes a number of proposals regarding the creation of these enterprise centres. Without such centres -- enterprise centres fulfilling the range of functions identified in this proposal -- it is highly unlikely that any systematic diffusion of the worker co-operative enterprise form will occur in Canada.

II. THE MODEL AND ITS ORIGINS

Experience in Canada and in other countries during the last thirty years demonstrated that if worker co-operatives are to be successfully created, there must be lead agencies who are the focus for advocacy and initiative.

The worker co-operative enterprise centre proposal outlined here reflects successes from a number of organizations; the organizational nature of the Co-operative Development Associations of Britain and the resource groups developed in Quebec, the business and training acumen developed by SCOP in France, the role of trade unions highlighted by the work of the Philadelphia Association for Co-operative Enterprise and the systematic financial facility, the Caja Laboral Popular.

The combined experience of initiatives undertaken by these groups clearly demonstrates the need for an organization devoting its specialized energies solely to the business of establishing successful worker co-operatives.

III. MANDATE

The mandate of worker co-operative enterprise centres is to create worker co-operatives and to profit from their successful development. Specifically, their work is to:

1.promote the worker co-operative concept,
2.provide development services for new worker co-operative enterprises,
3.provide support services for existing worker co-operative businesses.

Canada already has a full range of business consulting services available; there is no need to duplicate these services. What Canada does not have, is adequate specialized institutions which can serve as one-stop expert resource centres. These specialized centres would package information about worker co-operatives so that the concept can be promoted. Specific business opportunities could also be followed up.

There is a need for a focused promotional and entrepreneurial capability that is single-minded, as well as a capability to accumulate experience over time. Therefore, worker co-operative enterprise centres need to gather a team who have a general co-operative business capability. These centres do not need to be large organizations, but rather they should have a multiplier effect. When industry-specific expertise is required for a project, it can be contracted in the marketplace.

IV.SERVICES

The enterprise centres should offer three major services:

1.General business consulting. This includes the ability to:

*develop a business concept from the pre-feasibility study stage to preparing, or, in complex cases, co-ordinating preparation of, a business plan suitable for securing financing,

*offer group organizational skills that will guide interested workers from an initial evaluation of the worker co-operative concept to mapping out a complete organizational and management structure,

*assist in negotiations with receivers, management, unions,

*give incorporation and general legal advice,

*assist with media/community/government relations.

2.Financial package assembly that includes investing the centre's own capital funds in client worker co-operatives. These investments could take the form of any of senior debt, subordinated debt, non-voting equity, loan guarantees.

3.Promotion, advocacy and research ability so that the centre can successfully carry out its mandate to promote and advocate worker co-operatives and to continually monitor and communicate appropriate data from its own and other juristictions, and to evaluate its own efforts.

V.FINANCING

We propose that the centres finance themselves by the three methods outlined below. By combining these three sources of financing, the worker co-operative enterprise centres should have a steady source of funding. Efforts to create similar enterprise centres elsewhere suggest that all three income-generating sources are required to achieve financial stability.

1.Interest on capital investments: We propose that each worker co-operative enterprise centre be capitalized by a $5 million government grant. These funds would then be invested by the centre -- first, in short-term, highly-liquid financial instruments, and, over time, in medium-term investments in client worker co-operatives to assist them in their initial capitalization. Since the entire initial capital fund would be a grant, all interest would be available to cover the centre's operating costs. Over time, the initital fund would be depleted by bad debts; this would require the centre to fund its operating monies from other sources. (If the centre has a good record of job creation, it might be possible to receive additional government capital injections from time to time.)

As an enterprise centre built a track record investing its own funds, it should be able to raise capital funds from investors that would assist to the finance worker co-operative projects. Fees could be charged for this merchant banking function.

There are several obvious questions regarding this first method of financing worker co-operative enterprise centres.

The first is why should the government provide the initial capital for the enterprise centres, rather than the co-operative movement itself?

The answer is simple. The Canadian government has both a broad mandate to stimulate the economy, including job creation, and the taxing power to finance this mandate. The government already spends heavily in this area. Existing co-operatives, no matter how big, are not in a position, except nominally, to subsidize other forms of co-operative activity, no matter how desirable. Their first obligation is a fiduciary responsibility to their members. Co-operative members expect that any surplus funds will be invested to fulfill the purposes for which the co-operative was incorporated. While it is reasonable that the co-operative financial sector, where it is involved in commercial lending, will be interested in lending to worker co-operatives on the same basis as competing commercial lending institutions, significant subsidies are not possible.

Second, there is a distinct advantage in securing one-time capital grants from government to fund enterprise centres, rather than seeking annual grants to cover operating losses. The latter funding mechanism leads to greater government oversight and, therefore, would expose the centre to sudden shifts in the political environment.

Third, some feel that enterprise centres should not invest funds in their client's co-operatives. The centre's wish to ensure investment returns and loan repayments, critical to the centre's survival, would put them in a conflict of interest with their own consulting role.

It is true that if an enterprise centre lent its own funds to client co-operatives, the centre would probably have a conservative lending policy. It would only promote worker co-operative enterprises in which it has the confidence to invest its own resources. On a practical level, by investing its own funds in an initial finance package, other potential investors could be more easily attracted.

2.Fees for Service: The centre should charge full recovery fees for all consulting services to client worker co-operatives. Obviously, since there are only a small number of emerging or existing worker co-operatives in any region, this source of income will be limited at the outset. Furthermore, consulting work with new groups will be on a risk basis; any hope of payment for consulting services will depend on a successful capitalization and launch of the enterprise. However, over time, fees for service should be a growing source of revenue for the centres; clients will expect fee for service if this is established from the outset.

3."Contract of Association" Revenue: The centres should enter into a "contract of association" with each client worker co-operative. The contracts should be designed to generate income for the enterprise centre through a levy on any combination of their client's gross income, profit, or payroll.

This source of income is essential if the enterprise centres are to be in a position to absorb failures and to finance growth from within. A "contract of association" can provide a long-term income as an alternative to the speculative capital gains traditionally associated with business development vehicles. These contracts also are a vehicle for management oversight and backup that primary worker co-operatives will need for their own success.

VI. CONTROL STRUCTURE

A multi-stakeholder control structure for the enterprise centres is advantageous for both political and practical reasons. The bylaws of the worker co-operative enterprise centres should define three distinct voting constituencies, each with equal representation on the board of directors. These three constituencies are:

1.Institutional Supporters: Established co-operatives, trade unions, churches and community organizations should be encouraged to become members. The key institutions will be interested co-operatives and trade unions who perceive opportunities to serve their members and the public in ways that overlap with their own mandates. Once involved, these organizations can contribute credibility, management experience, a network of useful connections, and a modest degree of financial support.

2.Employees of the Worker Co-operative Enterprise Centre: Because worker co-operatives emphasize the primacy of workers governing themselves with the work place, it is appropriate that the enterprise centres apply this principle to their own operations.

3.Worker Co-operatives: As worker co-operative enterprises are launched, they should be encouraged to become voting members of the enterprise centre itself. This should give the centres direct feedback about the work they do, while at the same time providing board representation to the worker co-operative enterprises that will carry some of the centre's financial burden on their shoulders.

Government(s) will have a high impact on the enterprise centres through their role as the key initial financing source. This should be sufficient to allow government(s) to exercise their responsibilities without the complication of having government representatives also act as directors of the centres.

VII. GOVERNMENT GRANTS

There should be a unilateral federal program to provide block grants to establish regional worker co-op enterprise centres at a cost of $5 million each over three years. These funds be granted to centres in the Atlantic, Ontario, Prairies, and B.C. regions. An equal amount should be divided among the regional co-op development centres already functioning in Quebec. Thus government grants would total $25 million.

The provincial and territorial governments should be actively encouraged to add to the core federal financing with block grants of their own. Branch offices of the regional enterprise centres would be opened in each province or territory that participated in the financing, and provincial and territorial funds would be used in that province or territory.

However, a shared cost federal-provincial-territorial program should be avoided at the outset. Experience suggests that the difficulty of obtaining agreement may well kill the concept before it is launched, in addition to ongoing problems if some form of agreement is reached.

We strongly recommend that both federal, provincial and territorial enterprise centre support be channelled through distinct programs. Otherwise, initial good intentions are likely to be swallowed by the momentum of larger programs founded on distinctly different premises with different priorities.

The enterprise centres would work closely with those provincial and territorial governments who currently provide worker co-op development assistance; they would evolve complementary roles. In addition, every effort would be made to use existing government business programs. However, there should be no duplication because the latter tend to be industry and business specific, rather than underwriting a general business development vehicle such as the worker co-op enterprise centres.

Establishing the enterprise centres over three years allows sponsoring organizations sufficient time to gather appropriate human resources in each region and allows government to spread its expenditures over a period of years.

VIII. REGIONAL CO-OPERATION

The enterprise centres must be large enough to provide the different human abilities required for successful operation. On the other hand, given Canada's geographic size and the distinctiveness of the regions, five regional centres are the minimum to provide appropriate service.

From the beginning, co-ordinated plans should allow each centre to develop specialities, particularly in niches of their regional economy offering distinct business development opportunites and linkages. One of the centres should develop a specialized "buy out" analysis capability and make it available to all the other centres. The centres should fully exploit all opportunities for inter-centre co-operation.

IX. NATIONAL ORGANIZATION

Regional enterprise centres should federate to create a national body to represent the worker co-operative sector at the earliest possible date.

X. SYSTEM OF FIRMS

The enterprise centres should pay careful attention to the potential for developing worker co-operative enterprises that can reinforce each other's social and financial operations. The enterprise centres should seek to function as a hub around which interlocking enterprises can be organized. In addition, the enterprise centres should be careful not to be trapped into addressing only marginal employment situations, but attempt to promote the worker co-operative enterprise concept to the full range of business activities and employment groups. Experience elsewhere has shown that both are essential to the successful introduction of the worker co-operative enterprise concept.

XI. PROMOTION

Each new type of co-operative enterprise introduced to society has required intense promotional efforts by interested individuals and organizations. Workers cannot make demands for an organizational concept they have never heard of or seen in operation. The test of the worker co-operative concept will come when viable opportunities are created and workers can express their interest by choosing whether to respond with the necessary level of commitment to launch and sustain their business. Therefore, aggressive promotion will be an essential part of the work of the enterprise centres.

XII. FINANCIAL PROJECTIONS

Financial projections for at least five years need to be prepared for the proposed enterprise centres, based on an initial $5 million capitalization grant from the government. A number of key assumptions have to be established to determine revenue potential, including how fast the capital investment pool will be eroded by bad debts, at what pace fees for consulting services will increase, and at what point and to what degree "contract of association" revenues begin to accumulate. Furthermore, it is important to remember that the enterprise centres, just like any other business, must budget for retained earnings as quickly as possible, both to generate working capital for their own operations as well as to provide a reserve against downward fluctuations in projected operating revenue.

To prepare an operating budget, staff with skills in the following areas will be required: business analysis, legal, accounting, adult organization and education, communication and research, as well as overall management for the centre and administrative support. In addition, there will be expenses relating to office overhead and cash disbursements relating to services and programs.

XIII. ROLE OF CANADIAN CO-OPERATIVE ASSOCIATION

In the current phase, the Canadian Co-operative Association (CCA) is the critical organization for articulating the enterprise centre concept, preparing the necessary government application and organizing a network of interested organizations sufficiently influential to get a positive response from government.

In the second phase, as part of the government enterprise centre package, CCA should seek a contract to set up the enterprise centres. Similar to the current federal worker co-operative Innovations project, this task can be contracted to appropriate individuals with CCA supervision.

Once the enterprise centres are in operation and the outlines of a national organization are in place, CCA should invite the new worker co-operative entity to join its membership and to step away from its proactive lead role.

December, 1988.
Canadian Co-operative Association,
Worker Co-op Advisory Committee